

Message Text

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PAGE 01 DACCA 00949 01 OF 02 240421Z
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LIMITED OFFICIAL USE SECTION 1 OF 2 DACCA 0949

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TAGS: EFIN, BG
SUBJECT: BANGLADESH: MID-YEAR BUDGET AND BALANCE OF PAYMENTS
SITUATION

REF: 76 DACCA 4219

1. SUMMARY: MID-WAY THROUGH THE BANGLADESH FISCAL YEAR (JULY-JUNE), THE BUDGET WAS IN SURPLUS INSTEAD OF DEFICIT AS PLANNED, LARGELY BECAUSE DEVELOPMENT EXPENDITURES WERE LAGGING. AID UTILIZATION IS LOW. FOREIGN EXCHANGE RESERVES ARE RISING, PRIMARILY BECAUSE IMPORTS ARE SLUGGISH, REFLECTING LOW AGGREGATE DEMAND, WHILE EXPORTS ARE DOING WELL. SOME EXPATRIATE OBSERVERS ARE COUNSELING THE BDG TO ADOPT MORE EXPANSIONARY MONETARY AND FISCAL POLICIES: CERTAINLY AID UTILIZATION MUST IMPROVE OR BANGLADESH WILL ENJOY AN UNNECESSARY SECOND YEAR OF FINANCIAL STABILIZATION, RATHER THAN A FIRST POST-INDEPENDENCE YEAR SUCCESSFULLY FOCUSED ON DEVELOPMENT. END SUMMARY.

2. BUDGET SITUATION

A. REVENUE BUDGET. REVENUE COLLECTIONS, FOR SEASONAL
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PAGE 02 DACCA 00949 01 OF 02 240421Z

FACTORS, GENERALLY RUN BELOW PRORATED LEVELS DURING THE FIRST HALF OF THE FISCAL YEAR, AND THIS YEAR IS NO EXCEPTION. FROM JULY TO DECEMBER, COLLECTIONS AGAINST MAJOR REVENUE "HEADS" (SUCH LARGE REVENUE SOURCES AS CUSTOMS DUTIES) WERE 42 PERCENT OF THE 1976/77 BUDGET ESTIMATE, WHILE A YEAR EARLIER, THEY EQUALLED 40 PERCENT OF TOTAL ACTUAL COLLECTIONS FOR 75/76. MINISTRY OF FINANCE AND OTHER OFFICIALS HERE PRO-

JECT TOTAL REVENUE BUDGET RECEIPTS FOR FY 76/77 AT BETWEEN 9.5 AND 9.65 BILLION TAKA AGAINST BUDGET ESTIMATES OF 9.82. (TAKA 15.5 EQUALS ONE DOLLAR). EXPENDITURE DATA ARE UNAVAILABLE BUT PAST EXPERIENCE STRONGLY SUGGESTS THAT THE SEVERAL MINISTRIES ARE SPENDING ON TARGET. BDG FINANCE OFFICIALS TELL US THAT TAKA 3.8 BILLION WAS PROBABLY SPENT THROUGH DECEMBER AGAINST THE 7.67 ESTIMATED FOR THE FULL FISCAL YEAR.

B. FOOD BUDGET.

(I) SHORTFALL IN SALES RECEIPTS. BUDGET PLANNERS HAD ESTIMATED THAT, FOR THE FULL FISCAL YEAR, SALES OF 1.2 MILLION METRIC TONS (MMT) OF WHEAT AND 0.6 MMT OF RICE WOULD EARN REVENUES OF TAKA 2.16 BILLION AND 1.4 BILLION RESPECTIVELY, FOR A TOTAL OF TAKA 3.56 BILLION. THE BDG REVISED THIS ESTIMATE AT MID-YEAR, AND NOW PROJECTS TOTAL SALES AT 550,000 MT OF RICE, WORTH TAKA 1.284 BILLION AND 800,000 MT OF WHEAT WORTH 1.2237 BILLION, FOR A TOTAL OF TAKA 2.5 BILLION FOR THE FULL FY, OR A SHORTFALL FROM ORIGINAL BUDGET ESTIMATES OF ABOUT 1.06 BILLION, AND HENCE A SHORTFALL OF 500 MILLION FOR THE FIRST SIX MONTHS. ACTUAL FOODGRAIN RATION SALES FROM JULY THROUGH DECEMBER AND REVENUES DERIVED THEREFROM WERE 320,800 MT OF RICE WORTH TAKA 750 MILLION AND 272,900 MT OF WHEAT WORTH 491 MILLION FOR ABOUT 1.25 BILLION FOR SIX MONTHS.

(II) SAVINGS. THERE WERE ALSO TWO MAJOR SOURCES OF SAVINGS ON THE FOOD BUDGET. LOWER THAN ESTIMATED OUTLAYS FOR PROCUREMENT AND INTERNAL AND OCEAN FREIGHT COSTS. THE PROCUREMENT DRIVE BEGAN SLOWLY AND BY END-DECEMBER WAS RUNNING ABOUT 100,000 MT BELOW BUDGET ESTIMATES FOR A SAVING OF 340 MILLION LIMITED OFFICIAL USE

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PAGE 03 DACCA 00949 01 OF 02 240421Z

TAKA. THE BUDGET ESTIMATE FOR OCEAN FREIGHT, INTERNAL FREIGHT AND INCIDENTAL COSTS ASSOCIATED WITH FOODGRAIN IMPORTS WAS TAKA 1.3 BILLION, ON THE BASIS OF 1.5 MMT OF SUCH IMPORTS. THE LEVEL ESTIMATED BY THE WORLD FOOD PROGRAM IS TO BE 610,000. ASSUME SOME SHIPPING DELAYS, AND CALL IT 600,000, WE THEN HAVE EXPENDITURES OF ONLY 520 MILLION FOR A FULL YEAR OR 780 MILLION LESS THAN ESTIMATED. IN SUM, WHILE LOWER THAN ANTICIPATED RATION SALES OF FOODGRAINS REDUCED JULY-DECEMBER RECEIPTS BY ABOUT 500 MILLION, LOWER LEVELS OF IMPORT SHIPMENTS AND SLOW DOMESTIC PROCUREMENT IN THAT PERIOD SAVED SOME 730 MILLION TAKA.

3. CAPITAL BUDGET

A. COUNTERPART RECEIPTS BELOW EXPECTATIONS. SUCH RECEIPTS FROM NON-PROJECT AID WERE ESTIMATED IN THE 1976/77 BUDGET AT 4.5 BILLION TAKA FOR THE FULL YEAR. AGAINST THIS 4.5 BILLION FOR TWELVE MONTHS, SUCH RECEIPTS FOR THE FIRST SIX MONTHS WERE 1.3 BILLION. THE LATE SIGNING OF THE FIFTH

IDA IMPORT CREDIT AND THE JAPANESE YEN CREDIT, AS WELL AS THE DECISION NOT TO USE FRG COMMODITY AID UNTIL MID-DECEMBER, WERE IMPORTANT ELEMENTS BEHIND THIS LOW UTILIZATION RATE. SEASONAL FACTORS OPERATE HERE, TOO, AND OF THE 4.5 BILLION, PROBABLY ONLY 2.0 BILLION WOULD BE RECEIVED IN THE FIRST HALF OF THE YEAR, WITH 2.5 COMING IN DURING THE SECOND HALF.

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PAGE 01 DACCA 00949 02 OF 02 240413Z
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INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
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LIMITED OFFICIAL USE SECTION 2 OF 2 DACCA 0949

B. DEVELOPMENT EXPENDITURES LAGGING. THUS, BOTH REVENUE AND CAPITAL RECEIPTS ARE LAGGING AT MID-YEAR IN PART FOR SEASONAL FACTORS, WHILE REVENUE EXPENDITURES ARE BELIEVED TO BE RUNNING ON TARGET. YET THE BUDGET OVERALL WAS IN SURPLUS AT END-DECEMBER BY 50 MILLION, AGAINST BUDGET PLANNERS' PROJECTIONS OF A 500 MILLION DEFICIT. (ALTHOUGH THE BUDGET IS TO BE BALANCED FOR THE FULL FISCAL YEAR, IT WAS EXPECTED TO BE IN DEFICIT AT MID-YEAR). THE EXPLANATION: DEVELOPMENT EXPENDITURES ARE ALSO RUNNING BELOW PROJECTIONS. THE LIMITED AVAILABLE INFORMATION ON DEVELOPMENT EXPENDITURES BEARS THIS OUT. OF THE 1976/77 DEVELOPMNT PROGRAM OF TAKA 11.0 BILLION ABOUT 5.65 TO 5.7 IS TO BE SPENT BY AUTONOMOUS BODIES, I.E., BY BDG ENTITIES SUCH AS THE POWER DEVELOPMENT BOARD. SUCH RELEASES TO AUTONOMOUS BODIES ARE TO ACCOUNT FOR 70 PERCENT OF ALL DEVELOPMENT EXPENDITURES OTHER THAN THOSE FINANCED BY PROJECT AID (2.95 BILLION IN 76/77). RE-LEASES OF FUNDS BY THE FINANCE MINISTRY TO SUCH AUTONOMOUS BODIES THROUGH DECEMBER, 1976 AMOUNTED TO 1.45 BILLION. THE 1.45 BILLION FIGURE IS 24 PERCENT OF THE TOTAL PROJECTED FOR 76/77. AS OF END-DECEMBER 1975, SUCH RELEASES WERE 35 PERCENT OF THE TOTAL ACTUALLY RELEASED DURING FY 75/76.

THUS, OVERALL, PERHAPS 2.0 BILLION TAKA OUT OF 8.05 BILLION
(THAT IS THE TOTAL ANNUAL DEVELOPMENT PROGRAM OF 11.0
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PAGE 02 DACCA 00949 02 OF 02 240413Z

BILLION TAKA LESS 2.95 BILLION IN PROKECT AID) HAD BEEN COM-
MITTED BY THE BDG IN THE FIRST 6 MONTHS OF THE CURRENT FISCAL
YEAR.

4. BALANCE OF PAYMENTS

OF RELATED INTEREST IN THE SHARP RISE IN FOREIGN EXCHANGE
RESERVES DURING THE JULY-DECEMBER, 1976 PERIOD. RESERVES
AT END-JUNE WERE ABOUT \$213 MILLION AND BY END-DECEMBER HAD
RISEN TO ABOUT \$280 MILLION, DESPITE A \$14 MILLION IMF
REPURCHASE. THE MAJOR EXPLANATION IS LOW IMPORT PAYMENTS.
BOTH THE LEVEL OF TOTAL LETTERS OF CREDIT OUTSTANDING AT
END-NOVEMBER AND THE RATE OF NEW L/C'S ISSUED MONTHLY DURING
JULY TO DECEMBER, 1976 WERE BELOW THEIR CORRESPONDING FIGURES FOR
1975/76. ALSO, EXPORTS WERE VALUED AT TAKA 2.8 BILLION OR
\$186 MILLION. JUTE GOODS PRICES AND VOLUMES ARE UP AND TEA
HAS ENJOYED ITS BEST YEAR SINCE INDEPENDENCE.

5. OUTLOOK/IMPLICATIONS

IN JANUARY, BOTH THE BUDGET SURPLUS AND FOREIGN EXCHANGE
RESERVE POSITION CONTINUED TO IMPROVE; AND DEVELOPMENT
EXPENDITURES CONTINUED TO LAG, WHILE THE LEVEL OF
AGGREGATE DEMAND REMAINED LOW. THE ECONOMY CONTUNUES SLUGGISH,
HELD IN CHECK PARTLY BY MONETARY AND CREDIT POLICIES WHICH
WHILE PRUDENT IN 1975/76, AND RELAXED SOMEWHAT SINCE,
APPEAR TOO RESTRICTIVE IN 1976/77. SOME OBSERVERS BELIEVE
THE BDG SHOULD ADOPT MORE LIERAL CREDIT POLICIES
AND EVEN ABANDON THE GOAL OF A BALANCED BUDGET IN FY-77, TO
WHICH THE BDG REMAINS COMMITTED IN LINE WITH ITS ASSURANCES TO
THE (DISBELIVING) IMF MISSION MEMBERS LAST SUMMER. THE BDG
HAS ADOPTED SOME NEW PROJECT IMPLEMENTATION MONITORING PRO-
CEDURES AND INVITED DONORS TO RAISE AID UTILIZATION PROBLEMS
WITH THE ADVISOR IN CHARGE OF PLANNING, BUT THESE MEASURES MAY
NOT HAVE A PROMPT EFFECT. THE SUBJECT OF MOVING FROM STABILI-
ZATION TO DEVELOPMENT SEEMS CERTAIN TO BE A MAJOR TOPIC OF
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PAGE 03 DACCA 00949 02 OF 02 240413Z

DISCUSSION AT THE SPRING 1977 BANGLADESH AID GROUP MEETING.
MASTERS

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